MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023[TERM [TERM ID 2210]

BEC1614 –MICROECONOMICS

(All sections / Groups)

17 FEBRUARY 2023
9.00 A.M. – 12.00 P.M.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 4 pages excluding the cover page with 4 questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided

QUESTION 1

(a) Allen runs a Glass firm. He hires one helper at RM24,000 per year, pays annual rent of RM7,000 for his shop, and spends RM25,000 per year on materials. He has RM40,000 of his own funds invested in equipment that could earn him $4,000 per year if alternatively invested. He has been offered $10,000 per year to work in a competitor Glass firm. He estimates his entrepreneurial talents are worth $3,000 per year. Total annual revenue from Glass sales is $82,000. Find accounting profits and economic profits for Allen's Firm.

(i) Find Allan's accounting profit (3 marks)

(ii) Find Alan's economic profit (3 marks)

(b) Adam produces pairs of gloves for its mail order catalogue business. He rents a small room for $100 a week in the downtown business district that serves as his factory. He can hire workers for $300 a week.

Input of Labour	**Total product**	**Marginal Product of Labour**	**Average product of Labour**
0	0		
1	18		
2	34		
3	55		
4	72		
5	78		
6	83		
7	86		
8	84		

Continued...

i) Find the MPL and APL in the table.

(8 marks)

ii) Discuss the relationship between Total, average and marginal product.

(8 marks)

(c) A profit-maximizing monopolist charges a price of $25. The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and marginal cost is $6. Average total cost for 10 units of output is $9. Find the monopolist's profit?

(3 marks)

(Total: 25 marks)

QUESTION 2

(a) Explain the concept of Economies, Diseconomies and Minimum efficient Scale using firms long run ATC curve

(7 marks)

(b) "Pure Competition is economically efficient" Discuss (8 marks)

(c) Price control or regulation may improve the performance of monopolies: Discuss socially optimum pricing and fair return pricing? (10 marks)

(Total: 25 marks)

QUESTION 3

(a) Google Layoffs: Big Tech Continues Downsizing.

A report from tech-focused news site *The Information* suggests that Google layoffs could top 6%, or 10,000 employees, in early 2023. According to a report from tech news site *The Information,* Google parent Alphabet is now feeling the pressure. Adverse market conditions continue to bash profit margins and stock prices. The company is also facing calls from at least one wealthy activist investor to reduce "excessive" headcounts and per-employee costs. In broad strokes, the system allows management to rate employees based on performance and their impact on the business. Updated guidelines limit the number of employees who can score the highest ratings. Roughly the bottom 6% could be eliminated from the company entirely.

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(i) Discuss how the job cuts will change the IT industry's short-run average cost curves and marginal cost curve. (5 marks)

(ii) In the short-run, there is a direct relationship between marginal cost and marginal product (under the assumption that the additional input is purchased at a fixed price). Explain this relationship between marginal cost and marginal product. . (5 marks)

(b) A monopolist, has the following cost and revenue information. Find the Marginal cost, Total Revenue, and Marginal Revenue.. (15 marks)

Costs			Revenues			
Quantity Produced	**Total Cost ($)**	**Marginal Cost**	**Quantity Demanded**	**Price ($/unit)**	**Total Revenue**	**Marginal Revenue**
0	5	--	0	90		--
1	8		1	80		
2	10		2	70		
3	11		3	60		
4	13		4	50		
5	17		5	40		

(Total: 25 marks)

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QUESTION 4

(a) An almost 30% jump in egg prices in just one week has prompted a Malaysian government investigation into potential collusion. The cost of a crate of 10 eggs in the administrative capital of Putrajaya climbed as high as 5.11 ringgit ($1.68) at the start of December, from 3.98 ringgit a week earlier, according to the Domestic Trade and Consumer Affairs Ministry. Average prices in Malaysia are currently about 4 ringgit for 10.The ministry is looking across the supply chain to determine whether collusion or cartels artificially boosted prices.

i) Discuss the economic desirability of collusive pricing. (5 marks)

ii) Explain the main obstacles to collusion? (5 marks)

b) Monopolistic competition can make economic profit? Diagrammatically show a profit of a firm in the monopolistic condition in short run. (7 marks)

c) Two firms both Max and Dig mobile promote their product spend more money for advertising. Their decisions on high versus low advertising budgets and the effects of each on profits. Show a circumstance in which both firms select high advertising budgets even though both would be more profitable with low advertising budgets. Illustrate a game-theory matrix.

(8 marks)

(Total: 25 marks)

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